

Deposits of gold bullion and foreign coin, hearing before a ...

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Congress. Senate.
Committee on ...

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SUBCOMMITTEE ON S. 5079.

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DEPOSITS OF GOLD BULLION AND FOREIGN COIN.

WEDNESDAY, MARCH 22, 1916.

UNITED STATES SENATE.
SUBCOMMITTEE ON BANKING AND CURRENCY.
Washington, D. C.

The subcommittee met in Room 303, Senate Office Building, at 2 o'clock p. m., pursuant to the call of the chairman, Senator Robert L. Owen presiding.

Present: Senators Owen (chairman), Hitchcock, Pomerene, Weeks, and Gronna.

Also present: Hon. Charles S. Hamlin, governor, Federal Reserve Board, and Hon. William P. G. Harding, member of the Federal Reserve Board.

The subcommittee proceeded to consider the bill (S. 5079) to amend section 6 of an act to define and fix the standard of value, to maintain the parity of all forms of money issued or coined by the United States, to refund the public debt, and for other purposes, approved March 14, 1900, as amended by the acts of March 4, 1907, and March 2, 1911, introduced by Senator Owen, together with certain amendments suggested to the committee, which are indicated in italics, and the existing law in roman, as follows:

[S. 5079, Sixty-fourth Congress, first session.]

A BILL To amend section six of an act to define and fix the standard of value, to maintain the parity of all forms of money issued or coined by the United States, to refund the public debt, and for other purposes, approved March fourteenth, nineteen hundred, as amended by the acts of March fourth, nineteen hundred and seven, and March second, nineteen hundred and eleven.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That section six of an act to define and fix the standard of value, to maintain the parity of all forms of money issued or coined by the United States, to refund the public debt, and for other purposes, approved March fourteenth, nineteen hundred, as amended by the acts of March fourth, nineteen hundred and seven, and March second, nineteen hundred and eleven, is hereby further amended to read as follows:

"SEC. 6. That the Secretary of the Treasury is hereby authorized and directed to receive deposits of gold coin with the Treasurer, or any assistant treasurer of the United States in sums of not less than \$20, and to issue gold certificates therefor, in denominations of not less than \$10, and the coin so deposited shall be retained in the Treasury and held for the payment of such certificates on demand, and used for no other purpose. Such certificates shall be receivable for customs, taxes, and all public dues, and when so received may be reissued, and when held by any national banking association may be counted as a part of its lawful reserve: *Provided*, That whenever and as long as the gold coin and bullion held in the reserve fund in the Treasury for the redemption of United States notes and Treasury notes shall fall and remain below \$100,000,000

the authority to issue certificates as herein provided shall be suspended: *And provided further*, That whenever and so long as the aggregate amount of United States notes and silver certificates in the general fund of the Treasury shall exceed \$60,000,000 the Secretary of the Treasury may, in his discretion, suspend the issue of the certificates herein provided for: *And provided further*, That of the amount of such outstanding certificates one-fourth at least shall be in denominations of \$50 or less: *And provided further*, That the Secretary of the Treasury may, in his discretion, issue such certificates in denominations of \$10,000, payable to order: *And provided further*, That the Secretary of the Treasury may, in his discretion, receive, with the Assistant Treasurer in New York and the Assistant Treasurer in San Francisco, deposits of foreign gold coin at their bullion value in amounts of not less than \$1,000 in value and issue gold certificates thereof of the description herein authorized: *And provided further*, That the Secretary of the Treasury may, in his discretion, receive, with the Treasurer or any Assistant Treasurer of the United States, deposits of gold bullion bearing the stamp of the coinage mints of the United States, or the assay office in New York, certifying their weight, fineness, and value, in amounts of not less than \$1,000 in value, and issue gold certificates thereof of the description herein authorized. But the amount of gold bullion and foreign coin so held shall not at any time exceed one-third of the total amount of gold certificates at such time outstanding: *And provided further*, That if requested by the Federal Reserve Board, or by any Federal reserve bank, or Federal reserve agent, the Secretary of the Treasury may, in his discretion, issue such certificates in denominations of \$100,000, payable to order, and such latter certificates when issued payable to order shall not be subject to the limitations as to suspension of issue, or as to the denominations of outstanding certificates prescribed by this section. And section fifty-one hundred and ninety-three of the Revised Statutes of the United States is hereby repealed."

The CHAIRMAN, Gov. Hamlin, we will take up first Senate bill 5079, relating to \$100,000 gold certificates. It is proposed to amend the existing law by the insertion, on page 3, line 22, of the words:

And provided further, That if requested by the Federal Reserve Board or any Federal reserve bank or Federal reserve agent the Secretary of the Treasury may, in his discretion, issue such certificates in denominations of \$100,000, payable to order, and such latter certificates, when issued payable to order, shall not be subject to the limitations as to suspension of issue or as to the denominations of outstanding certificates prescribed by this section.

Gov. HAMLIN. The purpose of that, Mr. Chairman, is this: These certificates may be issued payable to order for \$10,000. We have established a gold clearing fund in the Treasury, and we have to-day, roughly, about \$85,000,000 in gold certificates contributed by the various banks, and from time to time, on their weekly clearings with one another, they transfer those certificates. Sometimes a bank may want to invest in Government bonds. It would take out certificates. We have had as high as \$5,000,000 in one day taken out or transferred, and our regulations prescribe the signatures of two members, and, of course, 500 signatures in a day is pretty heavy work and takes a great deal of the time of the board. It was suggested by the Treasurer that if Congress would authorize an order certificate in denominations of \$100,000 and limit it to the Federal Reserve Board purposes it would enable us, with just as great security and safety and with a minimum of trouble, to make those transfers.

That was the sole object of that amendment.

I want to say, also, that we receive requests from a great many banks asking for denominations of \$100,000 for clearing purposes, but we determined that we would confine ourselves directly to our present needs.

The CHAIRMAN. Why should you not have other denominations for that purpose?

Gov. HAMLIN. I know of no reason at all.

The CHAIRMAN. Do you think of any reason, Mr. Harding?

Mr. HARDING. I think it would be a good idea to let them have that. It would add to the safety of the proposition, because you could not negotiate \$100,000 certificates.

Senator POMERENE. This thought occurs to me: Assuming that there is reason for the \$100,000 certificate, why should we not provide for intermediate amounts between \$10,000 and \$100,000; say, \$50,000 certificates?

Gov. HAMLIN. There has been absolutely no request for that denomination. It was simply this one form of certificate.

Mr. HARDING. It would add to the expense of preparing the plates, etc.

Senator POMERENE. Yes; that is true.

Mr. HARDING. You would have over nine additional signatures.

Gov. HAMLIN. You will notice here that there is a clause saying that the issue of these certificates "shall not be subject to the limitations as to suspension of issue or as to the denominations of outstanding certificates prescribed by this section." That is simply when the gold fund falls below \$100,000,000; then the Secretary has the right to suspend the further issuance of gold certificates to the public.

The CHAIRMAN. Is there a form on the back of these certificates providing for their transfer?

Gov. HAMLIN. Yes, sir.

The CHAIRMAN. It reaches a point when that form will be filled up, will it not?

Gov. HAMLIN. Oh, yes; ultimately.

Senator HITCHCOCK. If they are issued in this way at your request, will they not be indorsed and used by the banks for clearing-house purposes?

Gov. HAMLIN. They would indorse one of these and give it to the treasurer at once, and he would merely make that amount of money available at any subtreasury to the bank. They would not get these certificates at all; they would simply indorse them.

Mr. HARDING. The certificate is issued to the order of the Federal Reserve Board, and they are given in substitution and in lieu of the current gold certificates.

Senator HITCHCOCK. Suppose the New York Federal reserve bank secures a number of those, and on request pays them out to a member bank or indorses them to a member bank; could not that member bank use them in the clearing house?

Gov. HAMLIN. I think the idea was that the Federal reserve bank should make that request of us. I think there is no objection to saying "at the request of the Federal Reserve Board," leaving it to us, and we would allow them to take those certificates.

The CHAIRMAN. Would it not be sufficient to just amend that act by saying that the Secretary of the Treasury may, in his discretion, issue such certificates in 10,000 and 20,000 denominations?

Gov. HAMLIN. That would be even better. I see no possible objection to it.

The CHAIRMAN. Why would not that be a better form in line 5, on page 3, Senator? Look at it.



Senator HITCHCOCK. I see nothing wrong with that.

Gov. HAMLIN. The Treasurer raised the same question. He did not object to that, but he did not seem quite as enthusiastic about it as he was about this. Possibly it might be well to ask the Treasurer of the United States if he has any specific objection to the matter.

The CHAIRMAN. Line 5, page 3; shall we make it denominations of \$10,000 and \$100,000, payable to order?

Senator POMERENE. Then strike out the proposed amendment?

The CHAIRMAN. Yes.

Senator POMERENE. I move that that be done.

Mr. HARDING. We would like to have those bank certificates receivable for customs and taxes and everything, just like the ordinary certificates are.

The CHAIRMAN. I see no reason why that should not be done. Is there any objection that occurs to you?

Mr. HARDING. I do not know of any. If you insert it there you make this subject to the limitations of the \$100,000,000 gold fund, which we want to avoid, because these certificates are only issued in lieu of the certificates already outstanding, anyway.

The CHAIRMAN. You want it to avoid that?

Mr. HARDING. We want to avoid ever being held up by the condition of the gold fund in the Treasury. This act provides that the ordinary gold certificate can not be issued when the redemption fund falls below \$100,000—

The CHAIRMAN. Oh, yes; that is an objection. Shall we adopt the amendment as proposed?

Senator HITCHCOCK. I think Gov. Hamlin has a rather different idea of that amendment from the one that I gathered as I read it. This may be issued on the request of the Federal Reserve Board or by a Federal reserve bank or by a Federal reserve agent. I understood you to say that they were simply to be issued on request of the board?

Gov. HAMLIN. The board would of course oversee the whole matter. Yes; I think you are right in the first instance. The Federal reserve agent might hold a large amount of gold and he might want one of these \$100,000 gold certificates. Then he would probably deposit that in our gold-reserve fund. From that moment, of course, they would be under our charge.

Mr. HARDING. It would be an additional safeguard to have them in these large-order certificates.

Senator HITCHCOCK. I do not see any objection to that just as it is.

The CHAIRMAN. You would let these banks have those notes if they would turn over to you the other notes?

Gov. HAMLIN. Yes.

Senator HITCHCOCK. This law is not changed in any other respect, except as changed by these italics?

The CHAIRMAN. All those who are in favor of the amendment as it is will say aye.

(Declared carried.)

The CHAIRMAN. If no one else desires to be heard in regard to this bill the subcommittee will adjourn.

(Thereupon, at 2 o'clock and 40 minutes p. m., the subcommittee adjourned to meet at the call of the chairman.)

ADDENDA.

Subsequently, before Senate bill 5079 was reported to the full committee, the House, on May 4, 1916, passed H. R. 13474, which covered some of the same matters included in Senate bill 5079, and is as follows:

[H. R. 13474, Sixty-fourth Congress, first session.]

AN ACT To amend section six of an act to define and fix the standard of value, to maintain the parity of all forms of money issued or coined by the United States, to refund the public debt, and for other purposes, approved March fourteenth, nineteen hundred, as amended by the act of March second, nineteen hundred and eleven.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That section six of an act to define and fix the standard of value, to maintain the parity of all forms of money issued or coined by the United States, to refund the public debt, and for other purposes, approved March fourteenth, nineteen hundred, as amended by the act approved March second, nineteen hundred and eleven, be, and the same is hereby, further amended by striking from the last proviso of said section six the word "one-third" and inserting in lieu thereof the word "two-thirds," making the last proviso of said section six read as follows:

"And provided further, That the Secretary of the Treasury may, in his discretion, receive, with the Treasurer or any Assistant Treasurer of the United States, deposits of gold bullion bearing the stamp of the coinage mints of the United States, or the assay office in New York, certifying their weight, fineness, and value, in amounts of not less than \$1,000 in value, and issue gold certificates therefor of the description herein authorized. But the amount of gold bullion and foreign coin so held shall not at any time exceed two-thirds of the total amount of gold certificates at such time outstanding. And section fifty-one hundred and ninety-three of the Revised Statutes of the United States is hereby repealed."

Passed the House of Representatives May 4, 1916.

Attest:

SOUTH TRIMBLE, *Clerk.*

This latter bill, H. R. 13474, was given consideration by the full committee and favorable report made thereon to the Senate, May 8, 1916, as follows:

The Committee on Banking and Currency, to which was referred the act (H. R. 13474) to amend section 6 of an act to define and fix the standard of value, to maintain the parity of all forms of money issued or coined by the United States, to refund the public debt, and for other purposes, approved March 14, 1900, as amended by the act of March 2, 1911, with amendments thereto, reports the act as it passed the House of Representatives and recommends that it do pass without amendment. The reason for the proposed alteration in the existing statute was given in a letter from the Secretary of the Treasury to the Speaker of the House on the 4th of March of this year, as follows:

TREASURY DEPARTMENT,
OFFICE OF THE SECRETARY,
Washington, March 4, 1916.

SIR: I submit herewith for your consideration the draft of a proposed bill the object of which is to permit the holding of a larger proportion of gold bullion and foreign gold coin as a reserve against gold certificates than is at present authorized under the provisions of section 6 of the currency act of March 14, 1900, as amended by the act of March 2, 1911.

This act permits the issuance of gold certificates against gold bullion and foreign gold coin to the extent of one-third of the total gold certificates outstanding, the other two-thirds being secured by gold coin stored in the vaults of the Treasury Department.

There is at present a total of gold coin so held amounting to approximately \$1,000,000,000 and the amount of gold bullion held as reserve against gold cer-

tificates has reached the prescribed one-third owing to the heavy influx of gold since the commencement of hostilities in Europe.

The Treasury is placed in the position of having to coin upward of \$100,000,000 in order to offset the bullion receipts, and the expenses of such coinage is deemed totally unnecessary when one considers that the amount of gold coin used as a circulating medium is infinitely small compared to the stock of gold coin stored in our vaults. Again, under the present provisions, it will be necessary to immediately turn into coin all further bullion received, or at least two-thirds of it, to permit the issuance of additional gold certificates with which to pay for the bullion, as payment is almost invariably requested in certificates.

The cost of coining \$100,000,000 in gold is approximately \$125,000, and there is no actual demand for such additional coin for any purpose other than to store it in our vaults to be held as a basis for further issue of gold certificates. It might just as well be stored in the form of fine gold bars, thus eliminating the expenses of coining it.

The bill I am submitting, if enacted, would permit the increase of our bullion reserve and eliminate the necessity of further coinage of gold to be stored as a reserve against gold certificates until such time as the amount of bullion so held equaled the amount of coin held, thereby effecting a considerable saving.

Another phase which has a direct bearing on this situation is that when gold is wanted for export purposes the demand is invariably for fine gold bars, and the enactment of the proposed bill would permit us to accumulate a good stock of such bars.

Respectfully,

W. G. McAdoo, *Secretary*.

To the SPEAKER OF THE HOUSE OF REPRESENTATIVES.

The Director of the Mint likewise states that the disuse by the public of gold coin in current business transactions has rendered the requirements of the act which this bill proposes to amend totally unnecessary and unreasonable; hence the Banking and Currency Committee thinks it would be indefensible for the Treasury Department to expend \$125,000 merely to conform to an obsolete provision of the act in question.